House of Commons Education Committee ([Education Committee launches inquiry into strengthening financial education - Committees - UK Parliament)]

Call for Evidence – Financial education

Response by the Institute and Faculty of Actuaries (IFoA)

15 December 2023

Call for evidence questions:
1. What should we be teaching young people about money? What should financial education include and are there any aspects missing from the current provision?
2. Where should financial education sit within the National Curriculum between the ages of 11 and 16? To what extent does its current position within the curriculum limit the amount of delivery time it receives? Should financial education form part of a core subject, such as mathematics?
3. What steps should be taken to support teachers and schools in their delivery of financial education?
4. Should the provision of financial education in schools be extended beyond key stages three and four. Is there scope for it to be embedded more extensively at primary-school level?
5. The Government has outlined proposals to ensure that all students study some form of maths up until the age of 18 – should financial education be included in these plans and, if so, how?
Examples of best practice in teaching financial education are welcomed.

About the IFoA

1. The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers. Under our royal charter, we are committed to promoting the public interest as well as developing actuarial science.

Executive summary

2. This response focuses on appropriate content for financial education in schools. Under call for evidence question 1 we highlight some key practical principles for financial literacy which are relevant for 11-16 pupils, and we also agree with the premise of question 4 that it makes sense to begin teaching such principles at primary level. Under question 5 we propose some important but more advanced topics that might be suitable for the 16-18 age group.

3. Under question 3 we have commented on the IFoA's work to help schools deliver financial education.

4. We have not responded to question 2 as we think teaching organisations are best-placed to provide views on the best way to incorporate financial education in the National Curriculum.

5. We would also highlight the wealth of existing financial education resources produced by a range of organisations (e.g. Young Enterprise[1]) and the potential for these to be used more effectively at all levels of schooling.

1. What should we be teaching young people about money? What should financial education include and are there any aspects missing from the current provision?

6. In April 2023 the then President of the Institute and Faculty of Actuaries (IFoA), Matt Saker, wrote to the Prime Minister in response to the Government's 'Maths to 18' initiative. The letter highlighted 'worryingly low levels of financial literacy in the UK and with that, a low understanding of financial risk'. One speaker in a House of Commons debate for National Numeracy Day, 18 May 2023, cited evidence that only 25% of young people leaving school think they are financially educated to the extent that they need to be to survive in today's financial world.

7. Under its Royal Charter, the IFoA has a duty to promote the public interest. This means we want people to feel equipped to handle the financial risks they face. We have also highlighted how the scope of these risks has increased in recent years – our report on The Great Risk Transfer looks at the trend of transferring financial risk from institutions to individuals which has not been matched by an increase in individual and collective capability to embrace this transfer of risk.

8. An IFoA working party published a report in 2020 which proposed principles of financial literacy covering Spending, Emergencies, Borrowing, Savings and Investments, and getting Advice when necessary[2]. The key messages and associated comments on these five areas are shown in the table below – noting the caveat in the report that this was only an initial effort towards a document that would be 'consumer-friendly, interesting and engaging whilst remaining compliant'.

Topic	**Key message**	**Comments**
Spending	Poor money management and lack of control over spending can cause serious problems in our lives regardless of how much money we earn. These problems can quickly build up if they are not dealt with and can lead to spiralling debt and long-term damage to our finances, health, and wellbeing. Budgeting forms the foundational platform for any successful financial plan.	*we would envisage an emphasis on the need for budgeting and good habits of shopping around and avoiding impulse spending as a foundation of any financial plan. We would also suggest incorporating reference to budgeting tools and apps.*

[1] https://www.young-enterprise.org.uk/teachers-hub/financial-education/

[2] Financial Literacy Working party paper **https://www.actuaries.org.uk/documents/financial-literacy-working-party-paper**

Emergencies	A major challenge in budgeting successfully is how to cope with unplanned spending or emergencies. Equipment (such as cars or heating systems) can break down; people can lose jobs or get sick or injured; families can unexpectedly grow. Building a financial buffer and taking out appropriate insurance represent the second stage in a basic financial plan.	*we would envisage a recognition that there are essentially three ways to plan for emergencies – creating a financial buffer, insurance, and borrowing – with some basic analysis of the strengths and weaknesses in each method. We would expect an emphasis on building a financial buffer (rainy day money) and on insuring for major risks to financial wellbeing and a de-emphasis of convenient but expensive borrowing options such as credit card loans.*
Borrowing	Most of us will need to borrow money at some point in our lives, whether it is a mortgage for a house, a loan, or flexible borrowing such as credit cards or overdrafts for day-to-day purchases. Options when comparing lenders can be complex and difficult to understand and making the wrong decisions can lead to a huge difference in the actual cost. Any financial plan will need to take into account when it is right to borrow, and on what terms, and when it is best to repay loans.	*we would envisage an emphasis on understanding the basics of borrowing, including the conditions, costs and penalties for default. We also believe that the actuarial profession should be able to contribute to discussion of the way interest rates are quantified using APR, which seems to be little understood by many consumers.*
Savings	Most people will acquire over their lifetime both short-term savings and long-term savings like a pension. At this point a financial plan will start to become more complex as investors strive to maximise returns without, necessarily, understanding the risks involved when going beyond a simple cash-based savings account.	*this is a complex area where it may be controversial to go into too much detail beyond a basic endorsement of saving for future needs. Nevertheless, we do envisage that the actuarial profession can make a contribution on basic principles such as understanding risk and return, certainty and uncertainty, which are fundamental to all forms of saving and investment.*
Advice	Managing finances can be complex and there are likely to be times in our lives where specific financial advice is required, or we could benefit from building a long-term relationship with an adviser to support us in all our financial decisions. Nevertheless, the key question is where to go to get reliable and cost-effective advice.	*although advice is very desirable in a large number of cases, there are major issues about affordability and reliability of advice. Thus, although we might encourage people to take properly regulated advice this needs to be balanced against the large numbers who are influenced more by social media, cold calling and recommendations from well-meaning but often poorly informed friends.*

9. The Working Party set out the benefits of improving financial literacy to the extent that school leavers could manage their own financial affairs: “Fewer people falling into debt and failing to be insured and more people choosing financial products more suited to their needs would be

valuable improvements in themselves. There is also a benefit in a more confident population. For financial services companies, surely having more consumers who were buying products that were right for them would be beneficial."

10. The five areas highlighted in the table are fundamental to improving individuals' levels of financial competence and confidence. In addition, one valuable approach is to tailor discussions of these areas to an individual's life circumstances. This makes the subject more practical and easier to relate to.

11. The Working Party cited evidence that 'providing specialist financial education training to teachers is valuable and has a clear positive impact for teachers and students'.

12. The IFoA also commissioned research in Scotland by the David Hume Institute which found that most survey participants were "keen to see more age and stage appropriate learning in schools, colleges and universities and also improved access to adult learning opportunities for developing financial literacy, including through employers."[3]

3. What steps should be taken to support teachers and schools in their delivery of financial education?

13. The IFoA runs a range of events for school pupils which provide education about the actuarial profession as well as opportunities to network with employers. Our award-winning annual event 'Count Me In' celebrates the diversity within the profession and encourages bright young maths students from historically unrepresented backgrounds to become actuaries. Our Career Ambassadors represent a range of employers and volunteer their time to take part in school events as speakers or panel members.[4] This reinforces the need for delivery of financial education to be relevant and practical to life experiences and often to be 'gamified' in order to achieve good engagement.

4. Should the provision of financial education in schools be extended beyond key stages three and four. Is there scope for it to be embedded more extensively at primary-school level?

14. The Working Party quotes the House of Lords Committee on Financial Exclusion, 2017: "Financial education must start in primary schools to allow the simple basics of money matters to be taught, such as how much things cost, how to save and why saving is a positive thing. From primary school to leaving secondary school the financial education curriculum should move with age appropriate content ensuring all topics are covered…".

5. The Government has outlined proposals to ensure that all students study some form of maths up until the age of 18 – should financial education be included in these plans and, if so, how?

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[3] Cited in IFoA Scottish Board submission to National Discussion on Scottish Education, 2022: https://communities.actuaries.org.uk/cfs-file/__key/communityserver-discussions-components-files/1/National-discussion-on-Scottish-education--IFoA-response-2022-12-04.pdf

[4] https://actuaries.org.uk/qualify/become-an-actuary/support-for-schools-and-universities/#Events

15. In addition to the key principles outlined under Question 1, we believe certain fundamental ideas in financial education may be appropriate to introduce as part of post-16 maths provision.

Data science

16. Matt Saker's letter to the Prime Minister noted that "Data science, a priority policy area for the IFoA, is strongly interconnected with mathematical areas from analytics to statistics that form the foundations of rapidly growing, society-changing technologies like artificial intelligence (AI)… giving post-16 education a stronger emphasis on data-focused mathematics will serve to greatly optimise the dividends of the Government's prioritisation of future technologies like AI." Financial education in schools needs to anticipate the need for data skills in the world of work as well as being a life skill.

The major impact of charges for financial products

17. Minimising the impact of expenses, especially those that are levied as an annual percentage of funds, can have a major effect on consumer outcomes. To appreciate this point it is important to have some understanding of the principles of compound interest. [5]

The asymmetry of knowledge between providers and consumers

18. The profitability of the financial sector relies heavily on "information asymmetry". This means that it is not in financial sector employers' interests for their employees to share their knowledge of the principles of finance and investment with consumers.

19. The IFoA's Great Risk Transfer campaign has highlighted the trend in recent years for many risks that were previously managed by institutions (such as the state, financial services providers and employers) to become the responsibility of individuals[6]. Since adults are now expected to own a greater degree of risk in their financial lives, we need to equip them with these life-skills at an early age, whether or not they have a natural aptitude for maths.

Past performance information

20. Past performance information tends to be given too much weight by consumers. Judging the appropriate weight is potentially a challenging concept to convey in school and adult education.

For further information, please contact Mattthew.Levine@actuaries.org.uk

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[5] This and some of the following two bullets are adapted from member Martin White's comments here: https://www.uksa.org.uk/news/2023/04/13/my-reluctant-conclusion-interests-consumers-do-not-come-first-practice

[6] https://actuaries.org.uk/thought-leadership/thought-leadership-campaigns/great-risk-transfer/